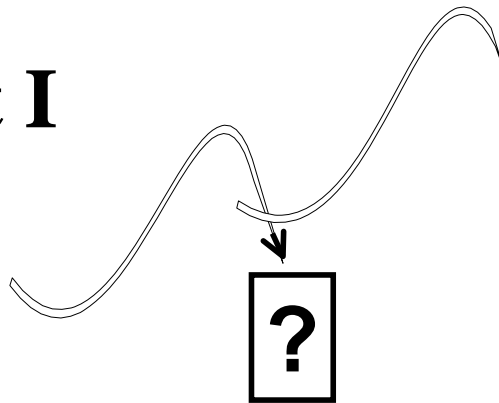


# **“Innovate Or Die” Part I**



I've taken 16 slides out of a 77-slide, 90-minute presentation for this annotated, abridged posting. The presentation was used for a trade association annual meeting that included both manufacturers and distributors in a given channel that sells both supplies and equipment into primarily industrial and institutional accounts. The more general topic of turning the art of innovation into a systematic science to generate new streams of profit can be tailored to fit any time frame from an hour to an all day seminar.

If you are a meeting planner for a group of either or both manufacturers and distributors and you would like a complete copy of the slide show –preferably emailed to you, please request it from Karen Green at [karen@merrifield.com](mailto:karen@merrifield.com).

## **AGENDA**

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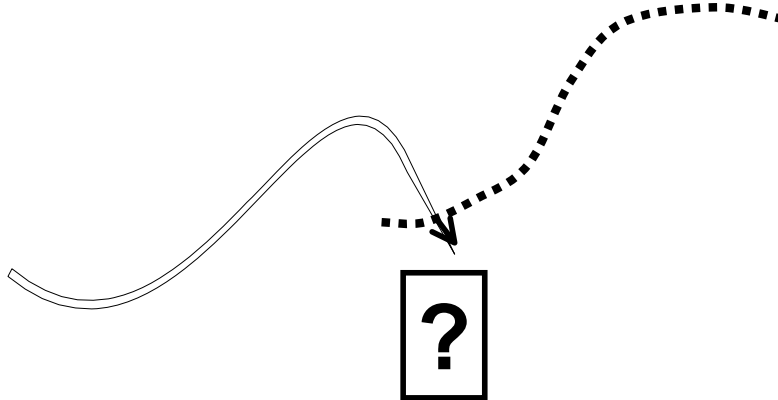
- 1. Are we in a “creative economy”?**
- 2. A circular framework of processes for innovation.**
- 3. Adjacency math for acquisition players.**
- 4. Supply chain reengineering guidelines.**
- 5. Blue ocean strategies for organic innovators.**
- 6. Homework assignment.**

**2**

These are the somewhat self-explanatory sub-topics covered in the complete 90 minute presentation. The “homework assignment” is a bridge exercise to “Part II” of “Innovate or Die” which was (could be) conducted on the following day by either me or another speaker collaborating on the effort.

## Section 1

# Are We In A “Creative Economy”?



The life-cycle diagram in this slide is meant to connote that those companies that are in a mature, consolidating industry in which economies of scale (consolidation), narrow scope (roll-ups of one type of distributor), supply chain efficiencies and private, knock-off brands are asking questions. One big one is: how do we find ways to re-invent new, growing profit streams?

## **NOT ENOUGH “CREATIVE” (?)**

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- ▶ **“National Innovation Initiative”**  
**([www.compete.org/nii/](http://www.compete.org/nii/))**
- ▶ **Business Week’s Special Report issue (8/1/05)**  
**“Welcome To The Creative Economy”**  
**[www.businessweek.com/innovate/index.html](http://www.businessweek.com/innovate/index.html)**
- ▶ **Many books, etc. on “creativity - innovation”**
- ▶ **Lots of agreement “talk”, but little “walk”**

**4**

The references in this slide can be coupled with the results from a number of business surveys to conclude that: 1) an overwhelming majority of US CEOs (approx. 75%) rate “innovation” as the #1 way that they expect to grow both their top and bottom lines over the next 5 to 10 years. And, 2) a self-rated 6% report that they are getting some new innovative results.

At the macro level, the US has been losing more factory and back-office service jobs to Asia faster than we seem to be able to create new, well-paying ones, and domestic suppliers can not raise prices due to a global glut of less expensive clones. These conditions have spawned “national innovation initiative” type efforts. No country, however, has the inherent capabilities and climate to thrive in a “creative economy” than the US. As Peter Drucker says: “Knowledge is being applied to knowledge itself. It is now fast becoming a singular factor in production, sidelining the importance of both capital and labor.” And, no country’s private sector can and will continue to exploit the knowledge or creative economy better than the US.

## **“THE LAW OF CHANGE”**

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### **“Type I”**

**Produced within a system that stays the same  
(continuous improvements - Kaizen)**

### **“Type II”**

**A new perception of the underlying system that breaks 1 or more of the rules (leads to discontinuous, breakthrough change)**

**5**

There's a creativity-and-innovation think tank called the Palo Alto Group that coined the two laws of change in this slide. Best practice companies in mature industries are the best at doing “Law I” which is also known as continuous improvement or kaizen. But, all companies have to get better at doing transformational or discontinuous change, which is “Law II”.

## **INNOVATION = A TEAM SPORT**



- ▶ **Too busy working for the business + in the business. No time to work on the living edge of the business as a team.**
  
- ▶ **Do we have enough creative & innovative talent on the team?**
  - **Who are they?**
  - **How will we recognize them?**
  - **Turn them on & loose?**

**6**

Many companies may think that they already have too many good ideas that they can't seem to implement. "Bruce, we already know how to run this business two times better than we are doing. We just can't seem to get the team to do much more than react to taking care of business."

These firms need new ideas on how to:

- Get all of their employees educationally enlightened and sustainably motivated to better define, measure, achieve and sell basic service excellence.
- Match services more exactly to different segments of customers and then allocate levels of service, prices and terms to different levels (A, B, C, D) of customers to better serve and retain super-profitable customers with a future while converting losing accounts into profitable ones or driving them to paralyze competitors. (And our video/DVD educational system, "High Performance Distribution Ideas for All" has those IDEAS.)

Two facts of life are:

- If we don't get rid of wasteful and unprofitable activity in our business, then we won't have the slack or extra resources we need to pursue proactive objectives. We will be 110% busy taking care of the same old mix of business that blends super-profitable customers with losing to a few super-losing accounts.
- Because front-line employees make service excellence – that differentiates commodity products – happen, if they don't understand how they can work smarter together and economically prosper from it, then they won't. In service businesses, either ALL of the employees are pulling together for a new, better performance scenario or they aren't.

## **INNOVATIONAL SELF-DIAGNOSTIC TOOL**

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### **I. Enterprise readiness**

- a. Innovation history & results (8 Q's)**
- b. Innovation infrastructure (8 Q's)**

### **II. Individual initiatives**

- a. Innovative insights (10 Q's)**
- b. Innovative development (7 Q's)**

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**Results + feedback summary (compare, discuss results with all key managers who do the quiz independently).**

**\*[Http://bwnt.businessweek.com/self\\_diagnostic/quiz.asp](http://bwnt.businessweek.com/self_diagnostic/quiz.asp) 7**

For those readers who might like to try an experiment with the management team regarding “how innovative are we” – do this:

- Have each manager go to the URL listed in the slide and do the simple, quick test on their own.
- Have them print out each page after they have answered the questions and before they hit the next page button, especially the last summary report page.
- Summarize the scores from each report and then have a discussion on how innovative the company really is and whether your level of systematic innovation is optimal.

## **THE HISTORICAL ODDS FOR CHANGE?**

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**1% survive a technology shift**

**20% survive a process shift**

**3 - 4% are continuous innovating  
“gazelles” (3M, Nucor, IBM)**

**5% spontaneous remission rate for  
alcoholics (& all denial cases?)**

**The art & luck of innovation → science?**

**8**

The facts are that most companies aren't very innovative, they do lots of evolutionary adjustments and react to what important suppliers and customers may tell them and think that's innovation. But, they are only doing what 80% of all other competitors are also doing, there is no competitive advantage being built; just survival maintenance is being done. In mature, consolidating industries with low structural profitability, all competitors are suffering from being very efficient in the same way. Only those who have proactively innovated unique, sustainable value propositions for specific customer segments and niches that they have targeted are growing profits at an enviable rate.

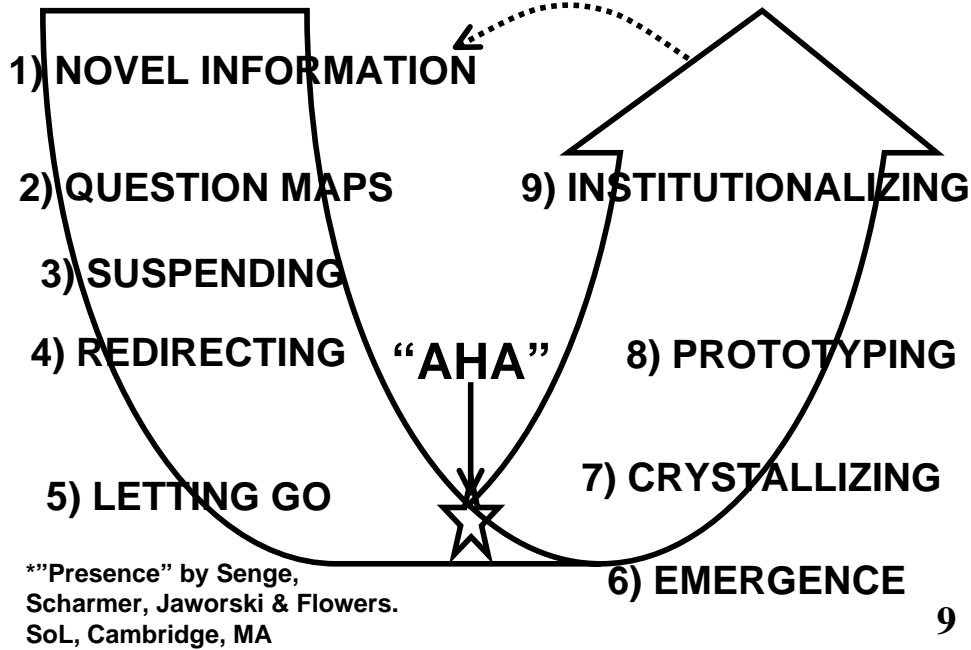
If the underlying technology changes for providing a solution (ice to refrigeration) the average wipe out rate for traditional competitors is 99%. If the process for how an industry solution is changed (corner grocery store to edge of town super-grocery store to super-center), the wipe out rate for established competitors is eventually 80%.

Companies that are able to grow 2 to 5 times faster and more profitably than their industry averages due to continuous improvement innovation are about 3 to 4% of the players in the industry. David Birch, in the '90s, called these firms “gazelles”. How do you become a gazelle and how do you partner them, so they grow you with innovative ideas (esp. suppliers) or ever increasing volume purchases (customers)?

And, all humans practice different levels and types of psychological denial to keep emotional pain at bay. We have all seen, for example, “emperors with no clothes” in the business world who shoot messengers that bring bad news. If a company is not successfully innovating at a great enough rate to attract and keep enough innovative people to survive in the long run, when does the CEO get out of denial? And, how often is that confessional moment early enough to effect a successful turnaround?



# INNOVATION IS A PROCESS OF PROCESSES (Exhibit 39 @ merrifield.com)



This is a complex slide that is explained in great detail in exhibit 39 at our web site at [www.merrifield.com](http://www.merrifield.com). The general idea is that for a company to have breakthrough ideas (between steps 5 and 6) that are embraced by enough of the team to make results eventually happen, we have to go through 9 steps. Each step is a bit of a process and skill set unto itself. You can take this over-arching scheme and tack on to it many different “creative/innovative solutions”. “Brainstorming”, for example, can be used during steps 1 and 2, but if a company doesn’t have “novel information” and doesn’t work on getting many of the right questions phrased correctly, then brainstorming will typically provide a bunch of superficial, old-way ideas along with many irrelevant ones.

## **OBJECTIVES FOR TIME LEFT**

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- 1. Provide an over-arching framework for a flood of innovative solutions**
- 2. Provide a mix of my pieces & others to hang on the framework**
- 3. Get you going on your own personal & corporate innovation path.**

**Great strategies for others don't fit  
our context & constitution**

**10**

No additional comments on this slide.

## **# 1 NOVEL INFORMATION**

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- ▶ **Our (financial) information supply ruts?**
- ▶ **Interview the most:**
  - **Progressive customers & non-customers**
  - **Progressive suppliers & their suppliers**
  - **Supply-chain, bissociation-able consultants**
  - **Profitable & un-profitable customers**
- ▶ **Ideas = fuel for innovation**
- ▶ **Best way to a good idea is to have lots**

**11**

No additional comments on this slide.

## **GUIDELINES FOR INFO → IDEAS (1)**

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- ▶ **Steps 1 - 6 of the “U” all generate ideas**
- ▶ **The ones that occur between 5 & 6 are most powerful**
- ▶ **We see the world like we are; not the way it is**
- ▶ **We think in (unspoken): stereotypes, patterns, paradigms**
- ▶ **The world is changing, not the way we think/see**
- ▶ **Bad decisions due to mindsets, not quality of info**
- ▶ **Mindset shifts are key to breakthrough ideas**
- ▶ **What would we do if we couldn't fail?**

12

No additional comments on this slide.

## **GUIDELINES FOR INFO → IDEAS (2)**

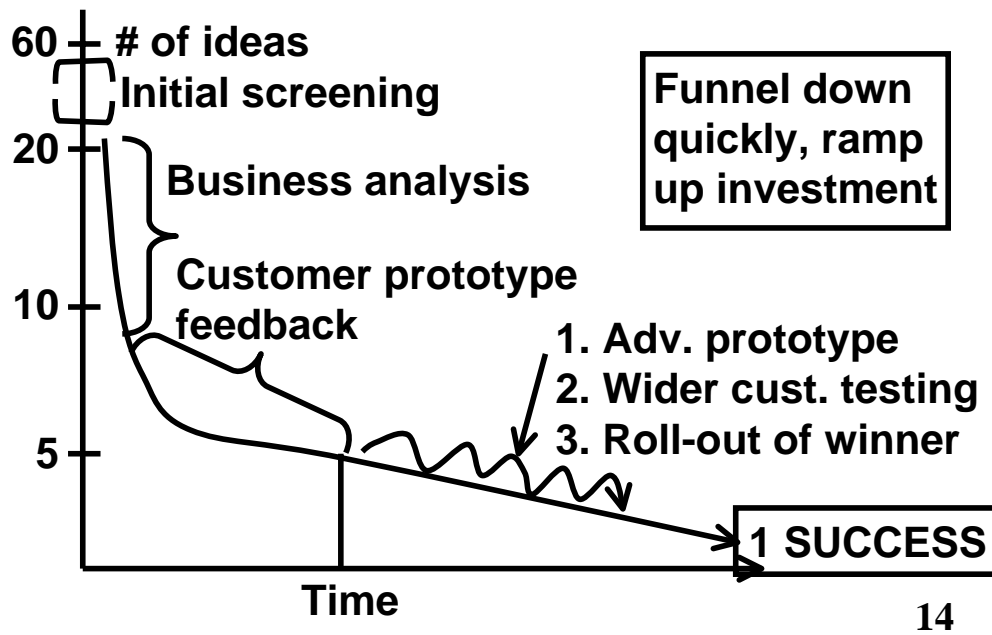
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- ▶ **For novel info we must observe differently**
  - be open to aberrational news items
  - rediscover the power of astonishment
  - look at problems with eye of the artist
- ▶ **Raise questions about questions**
- ▶ **Build a corporate, creative, suggestion/idea pipeline system**
- ▶ **Imagine & build first, judge later; try a “yes and” response instead of “yes, but. .”**

13

No additional comments on this slide.

# A GOOD IDEA COMES FROM A LOT



No additional comments on this slide.

## **SUMMARY POINTS**

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- **There is a new “creative economy”**
- **Transformational change is required**
- **Change both mindsets & reality**
- **Escape “end of” syndrome to “new beginnings” outlook**
- **Assume some dis-continuity in the future**
- **Practice all the skills of the “U”**

15

No additional comments on this slide.

## **SUMMARY POINTS (2)**



### **“Open Innovation Concepts”\***

- **Not all smart people work for us**
  - collaborate with smartest partners/customers
  - co-create next level solutions
  
- **Push our innovation into the market to be used by others for income licensing**
  
- **Building a better business model is more important than getting to market first**

**\*Summarized from “Open Innovation” by Chesbrough**

No additional comments on this slide.